

City of Minneapolis Audit Committee



2011 Annual Report

OFFICE OF THE INTERNAL AUDITOR

April 25, 2012

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No.	Review Name	Current Status	Comments
1	City of Minneapolis Computer Network Penetration	In-progress	Review will be reported April 25 th .
2	Database Access	In-progress	Review will be reported April 25 th .
3	School-Based Clinics Electronic Medical Record System Pre-Implementation*	In-progress	System implementation expected in August 2012; report expected shortly after implementation.
4	UNISYS Contract Review	In-progress	Review in progress and carried forward to 2012. Report is expected in May 2012.
5	AMPCO Contract Review	Complete	Report No. 2011-05
6	<ul style="list-style-type: none"> Bank Account Reconciliations Bank Account Access Automated Clearinghouse Transactions 	Complete	Report No. 2011-07
7	Cash Collection and Handling	Complete	Report No. 2011-08
8	Training Finance Department on Testing of Internal Controls	Complete	Report No. 2011-01
9	Quarterly Control Testing – Financial Reporting	Postponed	Review will be combined with Internal Controls over Financial Reporting slated for 2013 Audit Plan.
10	Internal Controls over Financial Reporting	Postponed	Review slated for 2013 Audit Plan.
11	Police Scheduling and Time Reporting	Complete	Report No. 2011-02
12	Timekeeping System Pre-Implementation	Complete	Report No. 2011-03
13	Procurement Processes	Complete	Report No. 2011-04
14	Accounts Payable <ul style="list-style-type: none"> Vendor Setup Invoice/Purchase Order/Receiving Matching Invoice Processing Segregation of Duties	Postponed	Review slated for 2012 Audit Plan.
15	Impound Lot - Contract Management, Cash Collections, and Physical Security	Complete	Report No. 2011-09
16	Water Revenue Capture	Complete	Report No. 2011-06
17	Grant Management Process	Complete	Report No. 2012-01; Published March 28 th .

2011 Audit Plan and Results – Overview and Summary of Findings



The Office of Internal Audit issued nine internal audit reports in 2011.

- 72 recommendations were made to City departments to address risks that can be more effectively controlled.
- Of the 72 findings identified, 70 were not considered to be significant.
- Based on the professional judgment developed by the Office of Internal Audit, two of the 72 findings identified in 2011 were categorized as “significant”.
- Note that findings were not categorized when reports were published in 2011.

2011 Audit Plan and Results – Overview and Summary of Findings (cont.)



The two findings ranked as significant by the Internal Auditor were:

1. Timekeeping System Pre-Implementation Review (Report No. 2011-03)

Accountability for Exempt Employees' Time

Finding: There was no requirement for exempt employees to enter time into their online timesheets and neither required self-approve or supervisor's approval.

Management Response: The project team incorporated controls requiring each exempt employee below the Charter Department Head level to consistently enter time and must be self-approved and approved by a supervisor. This corrective action was taken before the system went live.

2. Bank Account Reconciliation, Bank Account Access and ACH Transaction Review (Report No. 2011-07)

Commercial Electronic Office (CEO) Transaction Limits and Authorization

Finding: All authorized users of banking activities have a high dollar wire transfer transaction limit, which represents unnecessary risks to the City.

Management Response: Though management understands that certain wire transfer transaction limits may appear marginally high, the internal controls (described below) that are in place and used for these types of transactions significantly reduce the risk associated with these types of transactions. As a result, management does not concur that the City is subjecting itself to a level of unnecessary risk that is "significant." In addition, the CFO has worked with Treasury Division management, the City Coordinator and policy-makers to assess the transactional limits and staff authorizations for wire transfers, with a perspective of balancing transactional risk management and operational risk. The risks associated with setting transaction limits at any level are mitigated by the other controls Treasury has established for these transactions.

2011 Audit Plan and Results – Overview and Summary of Findings (cont.)



The chart below details the status of management action plans for reviews issued in 2011 as of 12/31 /2011.

Report Name	Total Recommendations	Complete	On Track
2011-01: Training Finance Department on Testing of Internal Controls Memo	0	0	0
2011-02: Police Scheduling and Time Reporting Review	9	7	2
2011-03: Timekeeping System Pre-Implementation Review ¹	8	8	-
2011-04: Procurement Process Review	6	3	3
2011-05: Ampco Contract Review ²	14	11	3
2011-06: Water Revenue Capture Review ³	13	3	10
2011-07: Bank Account Reconciliation, Bank Account Access and Automated Clearing House (ACH) Transactions Review	8	5*	3
2011-08: Cash Collection and Handling Review ⁴	7	5	2
2011-09: Impound Lot Review ⁴	7	3	4
Total (Percentage of Total)	72 (100%)	45 (63%)	27 (37%)

* Note that two of the five recommendations listed in the “Complete” column on this chart indicates that Management has responded that the controls in place are adequate to manage the associated risks and do not intend to take any further action.

¹ All action plans were completed on or before the expected completion dates.

² Four (4) of the 14 findings were discovered through audit work performed by Ampco’s Internal Audit team.

³ Nine (9) of the 13 recommendations were proposed by CDM, an outside consultant hired by Public Works.

⁴ This review included security data that the Minnesota Data Practices Act legally classifies as not public. To protect City resources and comply with the Act, information related to these recommendations have been withheld from this chart.

2011 Audit Plan and Results – Budgeted Hours vs. Actual Hours



2011 Budgeted Hours		2011 Actual Hours	
Total Budgeted Hours	7,524	Total Actual Hours	7,603
Total Budgeted Project Hours	5,041	Total Actual Project Hours	4,821
% of Total Project Budget Hours	67%	% Total Actual Project Hours	63%

Note: The 4% variance is due to time spent on additional administrative activities getting the Internal Audit Office operational in its first year.

Client Satisfaction Survey Results



- After each review, Internal Audit sends a client satisfaction survey to each key member of management involved in the audit process.
- In total, 30 surveys were sent to key management, 14 responses were received, representing 7 of the 9 projects completed in 2011.
- Cumulatively, the survey respondents gave an average score of 3.48 out of four.

Office of Internal Audit Update – Staffing



The Office of Internal Audit currently has two full-time employees and two part-time interns.

Jacob L. Claeys, Senior Internal Auditor

Certified Government Auditing Professional (CGAP)

Certified Internal Controls Auditor (CICA)

Mr. Claeys has eight years of business experience, with more than seven of those years devoted to internal audit work in local government.

57.5 hours of Continuing Professional Education (CPE) were completed during 2011.

Magdy S. Mossaad, Director of Internal Audit

Master of Business Administration (MBA)

Certified Internal Auditor (CIA)

Certified Management Accountant (CMA)

Certified Fraud Examiner (CFE)

Certified Public Accountant (CPA)

Certification in Control Self-Assessment (CCSA)

Mr. Mossaad has 30 years of business experience, with 20 of those years working specifically in internal auditing.

50.5 hours of CPE were completed in 2011.

Office of Internal Audit Update – Staffing (cont.)



The Office of Internal Audit's two current interns attend or have graduated from the University of Minnesota's Carlson School of Management.

Kelcie Brady, Undergraduate Student Intern

Ms. Brady graduated from the University of Minnesota Carlson School of Management in December 2011, with a dual degree in Accounting and International Business.

Lauren Heir, Undergraduate Student Intern

Ms. Heir will graduate from the University of Minnesota Carlson School of Management in May 2012, with a degree in Accounting.

Office of Internal Audit Update – 2011 Internal Audit Office Highlights



- Introduced the Internal Audit function to City leaders and management.
- Completed (reports were published) 9 projects.
- Leveraged technology for enhanced efficiencies: AutoAudit – Audit management software system, ACL – Data mining software.
- Implemented an Internal Audit Department internship program
- Developed the Internal Audit Department Policies and Procedures manual based upon professional guidance and government regulations.
- Continue to build business relationships with other audit functions and other local government entities.
- Performed a second annual City-wide risk assessment and developed a two-year audit plan – conducting more than 45 interviews with City leaders and management.

Office of Internal Audit Update – 2011 Annual Budget



2011 Budget vs. Actual Expenses	
Total Internal Audit Budget	490,338
Total Actual Expenses	470,554
Variance	(19,784)

Note: The variance of approx. \$20,000 is due to not fully utilizing the additional 700 hours budgeted for in the 2011 Audit Plan.

Other Updates – 2011 Audit Committee Highlights



- Held 10 Regular and Special Audit Committee Meetings throughout 2011.
- Published nine audit reports in alignment with the 2011 audit plan.
- Promoted and participated in an Audit Committee Workshop to discuss and fine-tune the Audit Process within the City of Minneapolis.

Other Updates – 2009 Quality Assessment Review Status Update



- In 2009, the Minneapolis Board of Estimate and Taxation (The Board) requested an evaluation of the City of Minneapolis Internal Audit function.
- The Board requested that the Internal Audit Review Committee, a group of volunteers knowledgeable in the audit profession, to perform the assessment and determine whether the function meets the industry standards for internal auditing.
- The Committee was to make recommendations that would maximize the Internal Audit potential to provide a thorough, objective perspective to evaluating and improving the effectiveness of City Government in Minneapolis.
- The review concluded that Minneapolis Internal Audit does not comply with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.
- Next slides will have the status update, as of Dec. 31, 2011.



Other Updates – 2009 Quality Assessment Review Status Update (cont.)

Matters for the Consideration of the Board and City Leadership

Recommendations:

1. **Organizational Independence.** The City should ensure that there is an audit committee with purview over internal audit.
2. **Organizational Independence.** The Internal Auditor should have a dual reporting relationship to the Board or its successor (Audit Committee) for audits and to the City Coordinator for administrative matters.
3. **Reporting to Senior Management and the Board.** The City should work to increase the staff of Internal Audit by at least two FTEs and possibly as many as four as soon as possible. This will ensure better audit coverage and allow City management to better identify and manage critical risks.

Status/Internal Audit Action Plans:

Completed. An Audit Committee was created and has purview over the Internal Audit activity.

Completed. The Internal Audit Department reports functionally to the Audit Committee.

Partially Completed. As a result of 2012 budget constraints, the Internal Audit Department reduced its staff from two Senior Auditors and a Director (three FTEs) to one Senior Auditor and a Director (two FTEs).



Other Updates – 2009 Quality Assessment Review Status Update (cont.)

Matters Specific to Internal Audit

Recommendations:

4. **The Institute of Internal Auditors (The IIA) Code of Ethics.** Minneapolis Internal Audit should adopt the IIA Code of Ethics and incorporate a reference to it in its Audit Charter.
5. **Audit Charter.** The Internal Audit Charter should be revised to conform to IIA Standards and clearly define the desired role for the internal audit function in the future of the City.
6. **Audit Planning.** Minneapolis Internal Audit should develop an annual risk assessment process that includes input from the Mayor, the City Coordinator, Senior Managers of City Departments and the City Council.
7. **Quality Assurance and Improvement Program.** Minneapolis Internal Audit should develop a Quality Assurance Improvement Program that includes regular internal quality check elements, as well an external review within the next 2 or 3 years if the activity can be brought into conformance, and then every 5 years as required by the Standards.

Status/Internal Audit Action Plans:

Completed. Each of the Audit team members including the students interns have signed the IIA Code of Ethics; it will be signed on an annual basis.

Completed. A decision has been made to rely on the City Ordinance, as the Charter of the Internal Audit Department. The City Ordinance requires the office of internal audit to adhere to the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

Completed. For 2011, Internal Audit jointly with KPMG developed a risk based three year audit plan that included input from the Mayor, the City Coordinator, Senior Managers of City Departments and the City Council. For 2012, Internal Audit developed a risk based two year audit plan. The process will be done annually and on an ongoing basis to update and maintain the audit plan.

Partially Completed. Internal Audit has developed regular internal quality control checklists within the audit process as a Quality Assurance Improvement Program. Internal Audit is planning to request the Audit Committee approve an external Quality Assessment to be performed within the fourth quarter of 2012, and every 5 years as required by the IIA Standards.